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## FISCAL IMPACT REPORT

**SPONSOR** Heaton      **DATE TYPED** 2/12/04      **HB** 194/aHTRC

**SHORT TITLE** Amend Lab Partnership & Business Tax Credits      **SB** \_\_\_\_\_

**ANALYST** Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	(2,400.0)	(2,400.0)	Recurring	General Fund
	*	*	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

Duplicates SB 197, Amend Lab Partnership & Business Tax Credits

Relates to:

HB 67, High-Wage Jobs Tax Credit;

SB 28, High-Wage Jobs Tax Credit

SB 78, National Lab Water Treatment

### SOURCES OF INFORMATION

LFC Files

### Responses Received From:

Taxation and Revenue Department (TRD)

Economic Development Department (EDD)

### SUMMARY

#### Synopsis of HTRC Amendment

The House Taxation and Revenue Committee amendment makes the following changes:

- The combined small business and supplemental tax credits may not exceed \$4.2 million;
- The \$2.5 million small business credit annual floor amount;
- The proposed supplemental tax credit may only be claimed if the lab's claims for small business assistance do not exceed \$2.5 million;

- The lab shall use the supplemental tax credit the same year the amount is calculated by the department; and
- A technical error is corrected.
- The proposed supplemental tax credit may only be claimed if the lab's claims for small business assistance exceeds \$1.8 million.
- Supplemental tax credits are tied to qualified expenditures by the lab to provide small business assistance in the same manner as the current small business assistance credits

#### Synopsis of Original Bill

House Bill 194 amends the Laboratory Partnership with Small Business Tax Credit Act (LPSBTCA) to increase from \$5 thousand and \$10 thousand to \$10 thousand and \$15 thousand the credit amounts allowed in non-rural and rural areas, respectively. The statutory limit on the total amount allowed under the LPSBTCA is increased from \$1.8 million per year to \$4.2 million. Additionally a new funding floor of \$2.5 million. A supplemental tax credit is added in an amount equal to subtracting the gross receipts taxes paid in calendar year 2003 (base year) from gross receipts taxes due in subsequent calendar years, and multiplying by one-third. New reporting requirements are included in the legislation requiring quarterly and annual reports.

#### Significant Issues

The Legislature has consistently emphasized economic development and job creation. The 2003 Legislature renewed the job mentorship tax credit that encourages businesses to hire young people to participate in career preparation education programs by providing tax credits of up to 30 percent of the gross wages paid for employing young people; the credit is limited to 320 hours per student. The Investment Tax Credit Act (Chapter 402) was amended to reduce the employment requirements to qualify for the credit; it now allows tax credits equal to 5 percent of the value of qualified equipment purchased and incorporated into certain manufacturing operations in the state.

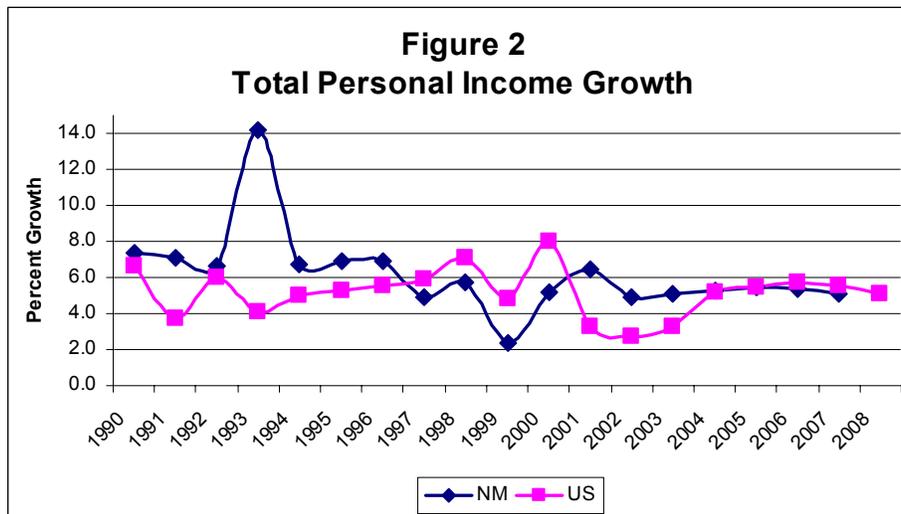
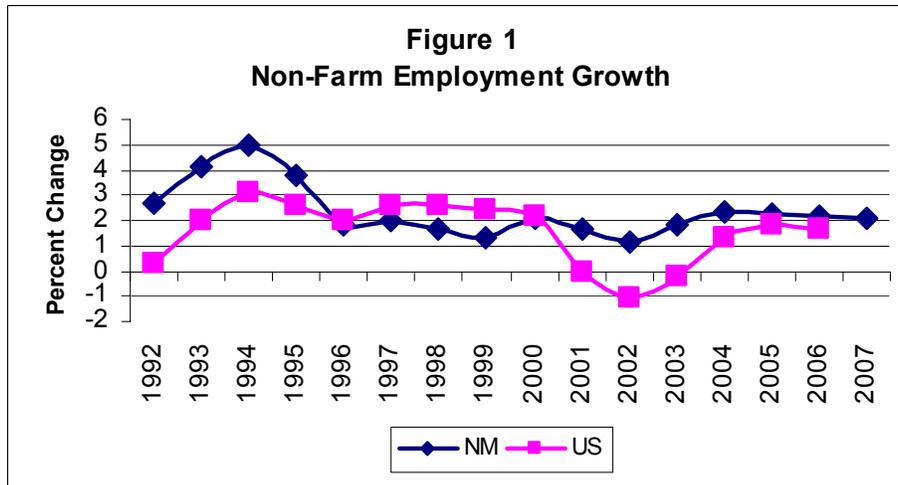
In 2002 the Legislature passed HB 40 *Software Development GRT Credit* (Laws 2002, Chapter 10) to provide a gross receipts tax deduction for receipts for software design and development and web-site design and development. The 2000 Legislature passed HB 19 *Technology Jobs Tax Credits* (Laws 2000, Chapter 22, 2nd SS) that provides a basic tax credit and an additional tax credit, both in the amount of 4 percent of the qualified expenditure made by a taxpayer conducting "qualified" research at a "qualified facility". To be eligible for the additional credit, the taxpayer must increase its payroll by \$75.0 over the base payroll of the taxpayer for each \$1.0 million of qualified expenditures.

**New Mexico Economic Performance.** Two of the most vital indicators of a state's economy are its employment and income growth. Although these indicators are often influenced by external forces, the mission of the Economic Development Department remains to provide programs and policies that help lead the state in a direction that produces an overall benefit for the citizens of New Mexico.

Figures 1 and 2 graphically depict New Mexico's need to "promote increased employment and higher wages". As illustrated in figure 1, New Mexico lagged behind the United States in non-agricultural employment growth from 1996 to 2000. When the United States economy slipped into

a recession in 2001, 2002, and 2003, New Mexico sustained a modest rate of job growth and ranked among the fastest growing states.

Similar to employment growth, New Mexico maintained a higher personal income growth from 1991 to 1996 than that of the nation. Growth, again, began to decline in 1997 and fell behind the United States. But in 2001 and 2002, New Mexico's growth surpassed the nation's, primarily due to the recession, as shown in the personal income growth graph.



**FISCAL IMPLICATIONS**

\*TRD notes that confidentiality provisions of section 7-1-8 NMSA 1978 prohibit it from divulging individual taxpayer information. TRD notes that the fiscal impact associated with the supplemental tax credit will vary depending upon how much the lab's prospective annual GRT liabilities exceed the GRT paid in the base year. The amount will increase as business operations grow and expand.

## TECHNICAL ISSUES

EDD makes the following content comments:

- “Reasonable Cost” should be defined. Also, EDD believes the intent of this legislation is to leverage national laboratory expertise for the purpose of providing direct, technical assistance to small business. Therefore, we question the usage of contractors. If the laboratory does not have the appropriate expertise, then it should refer the client company to a service provider that does.

TRD makes the following substantive comments:

- Section 5, Subsection A on page 5, specifies that the lab may claim a tax credit in an amount not to exceed one-third of the amount calculated pursuant to Subsection B of that Section. However, no amount is calculated in Subsection B. The amount the provision refers to is actually calculated in Subsection C. On page 5, line 24, “B” should be changed to “C”.
- Current statute limits the total annual credit amount to \$1.8 million per year, and the amount of the actual credit is predicated on the lab making qualified expenditures to provide assistance to small businesses. ***This proposal increases the amount of the credit to at least \$2.5 million annually. Thus the department is mandated to issue up to \$2.5 million in tax credits, regardless of the amount of small business assistance provided.*** The tax credit in its current form arguably provides at least some assurance that an external benefit accrues to the state for the amount expended. Under this proposal, there is no such guarantee.
- Similarly, the “supplemental tax credit” proposed in this bill ***is in no way related to any small business assistance provided by the laboratory.*** This provision simply eliminates a portion of the laboratory’s annual tax liability.

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